

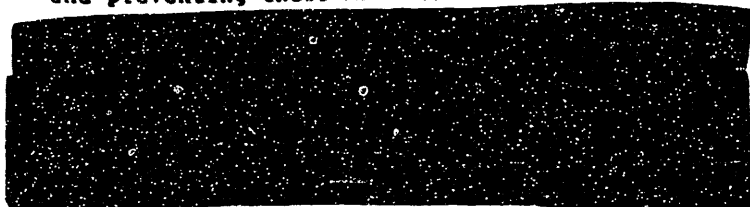
Exhibit 11-B  
CAVE

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Objectives of the Program:

- In the short term to resolve the American hostage problem in Lebanon, through the offices of Iran, to include
  - return of all presently held American hostages, and
  - cessation of hostage-taking;
  - and to accomplish this without jeopardizing our public policy of non-negotiation with terrorists and hostage-takers.
- In the longer term to establish contacts within the Iranian Government that might test the possibility of:
  - bringing about a change in the regime in Iran (or its attitudes), thereby
  - establishing gradually a rapprochement between the United States and Iran.
- Ultimate, Strategic Objectives remain an alliance which provides:
  - containment of the Soviet Union on a crucial flank
  - and preventing their move toward the middle east;



Problems with the Program:

For over a year the US Government -- using private and Israeli intermediaries -- has tried to resolve the hostage crisis by treating with Iranian officials; the long-term goal of eventually restoring a strategic relationship has remained in the background. The principal intermediary has been Ghorbanifar, and the principal official has been

In return for the shipment of American arms to Iran, the release of two American hostages was achieved.

Partially Declassified/Released on 12 May 1987  
Under provisions of E.O. 12356  
By E. Ruck, National Security Council

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Because the Ghorbanifar [redacted] channel, was viewed as slow and unreliable, the White House -- encouraged by Seccord and Hakim -- has turned to a new channel. The new channel involves an individual purporting to be [redacted] of Rafsanjani, Speaker of the Majlis and second most powerful man in Iran.

[redacted] is accepted as genuine -- although his influence with [redacted] and his delegated authority are less clear. [redacted] apparently is well-connected.

There have been two covert meetings with [redacted] one here and one in Europe. Another meeting is scheduled for the first week in November.

- While the tone of the meetings has been generally positive, the bargaining has been tough and the negotiations difficult; closure remains elusive.

A problem that now confronts us is the disposition of the first channel, from Ghorbanifar to [redacted]. This first channel has never been shut down in a way that would limit the damage to the overall initiative. Specifically, Ghorbanifar claims he was never compensated for some of the arms shipped to Iran, arms for which he arranged the financing.

- Ghorbanifar and his creditors, including Adnan Khashoggi, appear determined to recoup their "losses", even at the risk of exposing US covert arms shipments in exchange for release of our hostages.

We have a festering sore for which no treatment has been prescribed. [redacted] has demanded that the Ghorbanifar-[redacted] channel be shut down. Indeed, [redacted] claims already to have coopted [redacted].

- [redacted] claimed the home and office of [redacted] had been "bugged", his communications with Ghorbanifar (and US persons) monitored. [redacted] stated that he, and ostensibly Rafsanjani, had approved of the way [redacted] had proceeded heretofore. Notwithstanding, [redacted] has spoken of "eliminating" [redacted] sometime in the future.

Ghorbanifar appears to be harassed by his creditors, some of whom already have brought the problem to the attention of the DCI and Senators Leahy, Cranston, and Moynihan.

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- Ghorbanifar claims to have secreted, for "insurance purposes", documentation of events which have transpired so far.

Given this, the major elements of this initiative are likely to be exposed soon unless remedial action is taken. There is no indication that the White House has a plan to prevent the exposure or a plan to deal with the potential exposure.

The Ghorbanifar [REDACTED] channel must be shut down in a way that contains potential damage to the United States.

#### Background:

When the initiative began, National Security Advisor MacFarlane wanted to establish a channel to factions within the Iranian Government with which the United States might eventually deal, and which might secure incidentally the release of the American hostages in Lebanon.

Israeli officials like David Kimke put the White House in contact with Ghorbanifar. Working with Jacob Nimrodi and other Israeli entrepreneurs, Ghorbanifar introduced US intermediaries like Michael Ledeen to key Iranian officials [REDACTED]. Ghorbanifar also established a direct link to [REDACTED]. A series of meetings ensued with negotiations sometimes appearing highly positive, sometimes near-disastrous.

- One hostage was released in September, 1985, as a result of this channel. --
- A breakdown occurred in Geneva, in late November 1985, when the Iranians accused the other side of knowingly delivering the wrong version of Hawk missiles to Tehran -- an accusation we believe and for which we blame Nimrodi, if not Ghorbanifar.

Progress appeared dramatic in May 1986 when a US delegation led by MacFarlane secretly visited Tehran. The results, however, were disappointing. The Iranians were not prepared to deal directly with so high level a delegation. Still, another hostage was released subsequently, in late July.

Another channel, potentially more promising, was just then opening up through private efforts by Albert Hakim and Dick Seccord. Through [REDACTED] representative of the Iranian Government [REDACTED] a meeting was held in late August in

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Brussels with [REDACTED] Majlis Speaker Rafsanjani. This, in turn, led to two meetings between [REDACTED] and US officials, one meeting in Washington, the other in Frankfurt.

Ghorbanifar's Alleged Financial Straits:

The Ghorbanifar [REDACTED] channel is technically "on hold." Clearly, however, it is being supplanted by the Hakim- [REDACTED] channel -- a fact reportedly known by [REDACTED] and presumably by Ghorbanifar.

The arms transactions in which Ghorbanifar and [REDACTED] figured required that Ghorbanifar provide the financing. The US required money in advance of any arms delivery while Tehran, previously burned by other would-be arms providers, demanded shipment before payment. Thus, it fell to middle-man Ghorbanifar to arrange the financing.

Ghorbanifar, working with Adnan Khashoggi, got some Canadian investors to lend \$15 million to finance the shipment of Hawk spare parts to Iran. Khashoggi put up collateral to cover at least part of this loan. The interest on the \$15M, repayable in 30 days, was 20%. Ghorbanifar, then, would have to pay a minimum of \$18M. These financial arrangements were made at the end of April -- before MacFarlane's visit to Tehran.

Since the loan was agreed to, Ghorbanifar claims to have been paid only \$8M. He agrees that he received \$4M at the end of July following the release of Father Jenco. He claims, without proof, that only \$3M can be applied to repayment of the loan, the other \$1M being related to a separate transaction with [REDACTED]. Ghorbanifar admits to receiving \$5M two or three weeks later, but that no additional funds have been forthcoming.

- He states he has been able to repay about \$8M to his creditors, including \$6M to one financier -- of which \$1M was interest.
- He states, too, that he paid other financiers \$2M for interest charged.

Ghorbanifar asserts that he now has a \$10-\$11 million shortfall that he cannot meet. The creditors are becoming angry and have demanded additional interest because the principal is overdue. Ghorbanifar claims to be under tremendous pressure and feels financially discredited.

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- Ghorbanifar's financial situation is murky, indeed. [REDACTED] has claimed that he paid Ghorbanifar an additional \$8M in cash, an assertion that cannot be validated.

Regardless of who is cheating whom -- and we are not likely to be able to sort out these confused finances -- we face a situation where operational security has been forgotten and no one is prepared to deal with the issue.

#### Rapprochement with Iran:

The broader, strategic objective has become subordinated to the tactical matter of the American hostages in Lebanon. Notwithstanding, we have obtained useful insights into the factious government of Iran.

- [REDACTED] for example, has focussed on long-term US economic investment in Iran, in addition to arms supply.

We have not yet developed a viable plan of action to utilize this information. Talk about geo-strategic relations is cheap and easy; hard options on how to accomplish this are harder to come by.

#### The Ghorbanifar [REDACTED] Channel:

Ghorbanifar is depressed and claims his financial situation has been damaged. On several occasions, he has said he would not sit idly by and permit himself to be made the "fall guy" in this matter. He claims to have given written accounts of all that has transpired to several persons in America and Europe. He has directed these individuals to make this material available to the press in the event that "something bad" befalls him. We believe this account would include statements to the effect that:

- the Government of the United States sold military materiel to the Government of Iran in order to gain the release of American hostages in Lebanon;
- a high-ranking US delegation met in Tehran with representatives of the Iranian government in order to discuss the future relations between the two countries, with various cooperative ventures discussed;

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- the US Government made several promises to him (Ghorbanifar) that it failed to keep; and,
- the Government of the United States, along with the Government of Israel, acquired a substantial profit from these transactions, some of which profit was redistributed to other projects of the US and of Israel.

There is also likely to be material alleging poor judgement and shabby conduct by individuals of the US and Israeli governments.

Recommendations:

We face a disaster of major proportions in our efforts with Iran despite the apparent promise of the Hakim [redacted] channel. Too many know too much, and exposure, at a minimum, would damage the new channel badly, perhaps fatally.

- Rafsanjani cannot permit himself to be seen as dealing directly with the "Great Satan".

Exposure would make any movement on the hostages difficult, if not impossible.

- It is clear from [redacted] comments that he does not have total control over the Lebanese Shia holding the American hostages.

Because the risk of exposure is growing daily, the following actions are recommended:

(A) Establish a Senior-Level Planning Cell at the White House to focus on the potential for rapprochement with Iran, the appropriate channels to be used, and the separation of the tactical hostage issue from the long-term strategic objective.

This group could consist of two or three experts and should be headed by someone with the stature of a Henry Kissinger, a Hal Saunders, a Don Rumsfeld, or a Dick Helms.

The group should have access to all data concerning the ongoing initiative(s), including White House records and the [redacted]

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(B) Develop Press Guidance in the Event of an Exposure. We have no coordinated press guidance on how to deal with the Iranian initiative should it be exposed publicly. Press guidance must be prepared now. At least one, possibly two major US journalists have bits and pieces of the hostage story and know that Ghorbanifar was involved in it.

- The Israelis have exposed some of this.
- Khashoggi and the Canadian financiers are complaining to influential US individuals.

We could soon have an incredible mess on our hands and damage limitation must be addressed now in an orderly, systematic manner.

(C) Effect an Orderly, Damage-limiting Shutdown of the Ghorbanifar Channel. It is unlikely we could totally discredit any revelations by Ghorbanifar; he has too much documentary evidence that implicates US officials.

- Hakim has suggested that means be found to "buy off" Ghorbanifar.
- Perhaps we can engage Ghorbanifar otherwise, in non-hostage-related projects -- say, in the area of Iranian, Libyan, and Syrian sponsored terrorism.

A small working group of those knowledgeable of the Ghorbanifar channel should meet to consider how to cope with this problem. Clearly, there are some personal things that can be done for Ghorbanifar, for example:

- Arrange permanent alien residency for his girl friend in California.
- Arrange for visas for his family so they can visit relations in the United States, and so his mother can obtain medical treatment here.

These steps will not alleviate Ghorbanifar's financial problems -- regardless of their merit -- but may dispose him more kindly to the US Government and lessen his inclination to expose the Iranian initiative.

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